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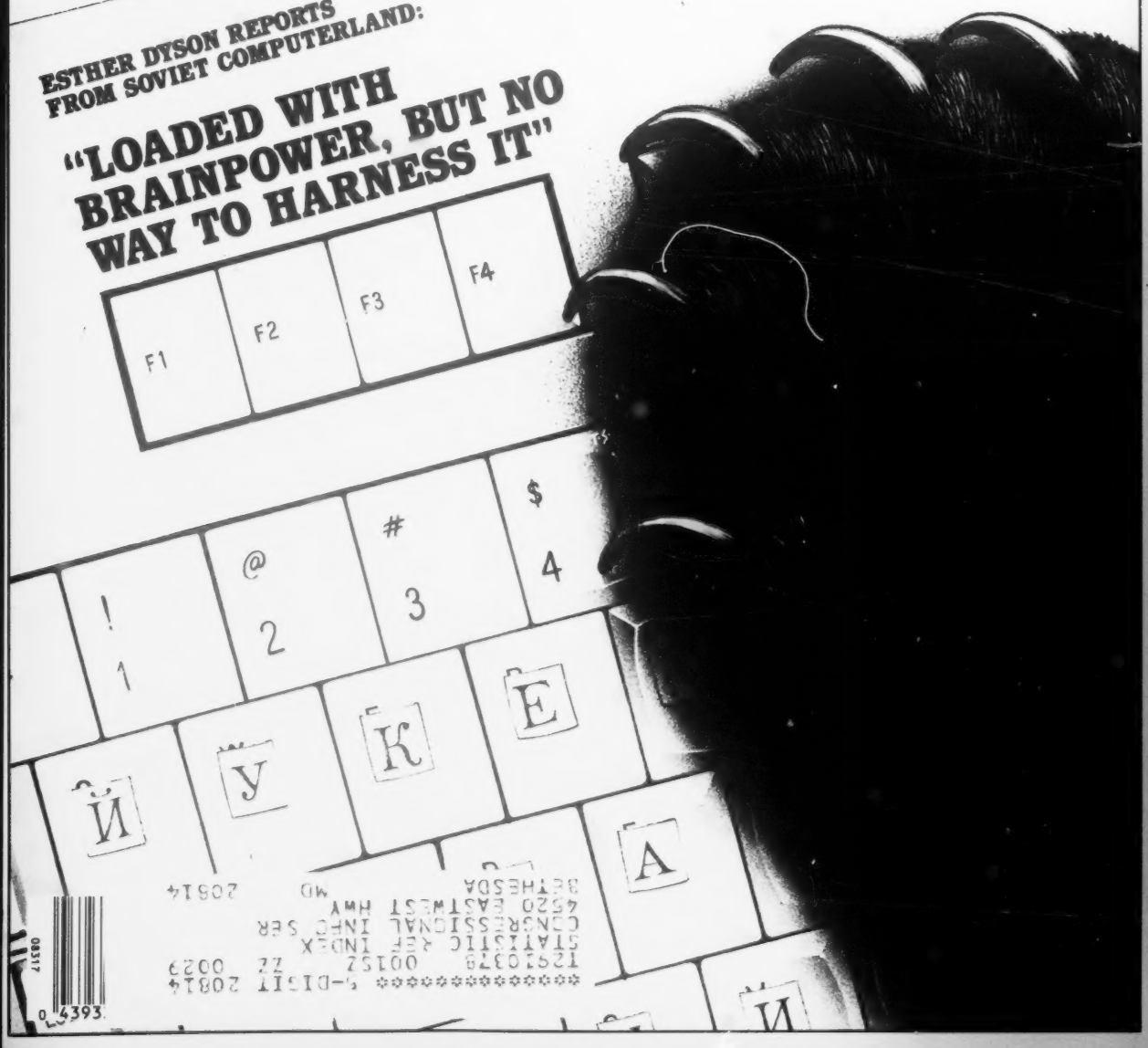

Cover illustration by Tommy Soloski

103

57 *Pay-phone payoff*

72 *Guarded good news for gas*

JUNE 12, 1989
VOLUME 143
NUMBER 12

THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 6 AND 7.

COVER STORY

103 Three Weeks That Shook My World
By Esther Dyson
The Soviet Union knows it must change, but change is met with resistance at every turn. Herewith a glimpse of how perestroika is shaking up information and computers in the U.S.S.R.

COMPANIES

39 Avon Products
By Stuart Flack
What did Irwin Jacobs see in Avon? A smart piece of international arbitrage.

41 Pittston Co.
By Richard Phalon
A "new breed" unionist may severely alter Pittston's turnaround timetable.

44 Community Psychiatric Centers
By Ellen Paris
Of all the companies cashing in on the nation's drug, alcohol and mental health problems, Community Psychiatric looks the healthiest.

48 William Morris Agency
By Lisa Gubernick
The William Morris Agency is the oldest in the talent business. But in Hollywood old doesn't mean a thing.

57 The Up & Comers: International Telecharge
By Fleming Meeks
With revenues exploding at this phone firm, why are insiders selling?

64 The Up & Comers: Price Stern Sloan
By Ellen Paris
Forget serious. Book publishing is a way to have fun and make money.

85 The House Of Guinness
By John Marcom Jr.
How Guinness grew from a small brewer to a mighty spirits house.

112 Criterion Group
By William P. Barrett
Everyone is making money but the investors who bought stock when Criterion went public.

120 Transco Energy Co.
By Toni Mack
Having steered Transco through an earnings crisis, George Slocum must now worry about Oscar Wyatt.

124 Lomas Financial
By John H. Taylor
Jess Hay built Lomas into one of the most reliable stocks on Wall Street. Now he is retreating.

128 Allen-Edmonds Shoe Corp.
By Rick Reiff
Against long odds, a Wisconsin company gets its foot in Japan's door.

147 WestAir
By Marcia Berss
Avoiding the big carriers, two young entrepreneurs are flying high.

INDUSTRIES

72 Forecast For Natural Gas—Better Times, But No Boom
By James Cook
At long last, some relief for the beleaguered natural gas industry.

INTERNATIONAL

92 Don't Tread On Us—Please
By Jerry Flint
Will freer markets allow Japanese carmakers to colonize Europe? More likely, GM and Ford will benefit.

96 "Pressure Has Its Uses"
By Laurence Minard
Even Columbia's Jagdish Bhagwati concedes the U.S. may have to give Japan a shove on trade.

GOVERNMENT

38 Letters From Home
By Jack Willoughby
Marc Rich is a fugitive from U.S. justice. Why is our government helping him sell wheat to the Soviets?

153 Rivets And Revelation
By Howard Banks
Will the Bush Administration adopt a tougher attitude on antitrust? For signals, watch this FTC case.

IDEAS

42 How One Family Handles Its Finances
By Joe Queenan
Confused about all those scandals down in Washington? Read this.

128 *Peddling U.S. shoes in Japan*

170 *Beeper madness*

174 *How to keep kids in school*

INVESTING

131 The Funds: Smart Money?
By Jonathan Clements
When mutual fund management companies have extra cash, they rarely buy their leading funds. Don't they believe in their own product?

196 Streetwalker
The U.S. dollar; Rohm & Haas; Cummins Engine; Temple-Inland.

ON THE DOCKET

126 A Stacked Deck?
By Deirdre Fanning
In the $5 billion market for trading claims against troubled companies, small creditors often get hosed.

NUMBERS GAME

150 Earnings Helper
By Dana Wechsler
A bookkeeping change can turn profits into losses—and vice versa.

COMPUTERS/COMMUNICATIONS

154 Etch-A-Drug
By Ignatius Chithelen
How can we cut the time it takes new drugs to get to patients? Automate the way chemists track molecules.

155 Next Time, Think Big
By David Churbuck
Pilot Executive Software broke ground in executive information systems. But the innovator doesn't always collect the spoils.

160 Caveat Raider
By Kathleen K. Wiegner
For technology companies, the most important asset is the confidence of customers. Witness the suicidal battle over Prime Computer.

SCIENCE & TECHNOLOGY

162 Asbestos Again?
By Lisa Scheer
Artificial hips and knees help hundreds of thousands of people. But are they creating serious problems?

MARKETING

166 Sorrel! Ridge Makes Smucker Pucker
By Joshua Levine
On the supermarket shelf, a tiny jam company shows how the small can thrive among giants.

PERSONAL AFFAIRS

170 Beepers Come Of Age
By Neal Santelmann
Many people—drug dealers included—wouldn't be caught dead without their beepers. But should an executive bother toting one around? Also: Traveler's aid; collecting Edo art.

CAREERS

174 Senior Achievement
By Ronald Bailey
With schools in abysmal shape, businesses worry about the next generation of workers. One organization is doing something.

DEPARTMENTS

8 Side Lines
10 Follow-Through
14 The Informer
16 Readers Say
19 Fact and Comment
24 Other Comments
27 Fact and Comment II
31 Commentary
199 Flashbacks
200 Thoughts

COLUMNISTS

187 Ben Weberman
188 David Dreman
190 Ann C. Brown
191 Mark Hulbert
192 Michael Gianturco

MONEY & INVESTMENTS

33 What's Ahead For Business
34 The Forbes Index
183 The Forbes/Wilshire 5000 Review

FACES BEHIND THE FIGURES

178 **Ernest Mario**
Glaxo Holdings Plc.
178 **Dick Simon**
Indy 500 racer
180 **William Howard Beasley III**
Lone Star Technologies
180 **Frank Carlucci**
Carlyle Group

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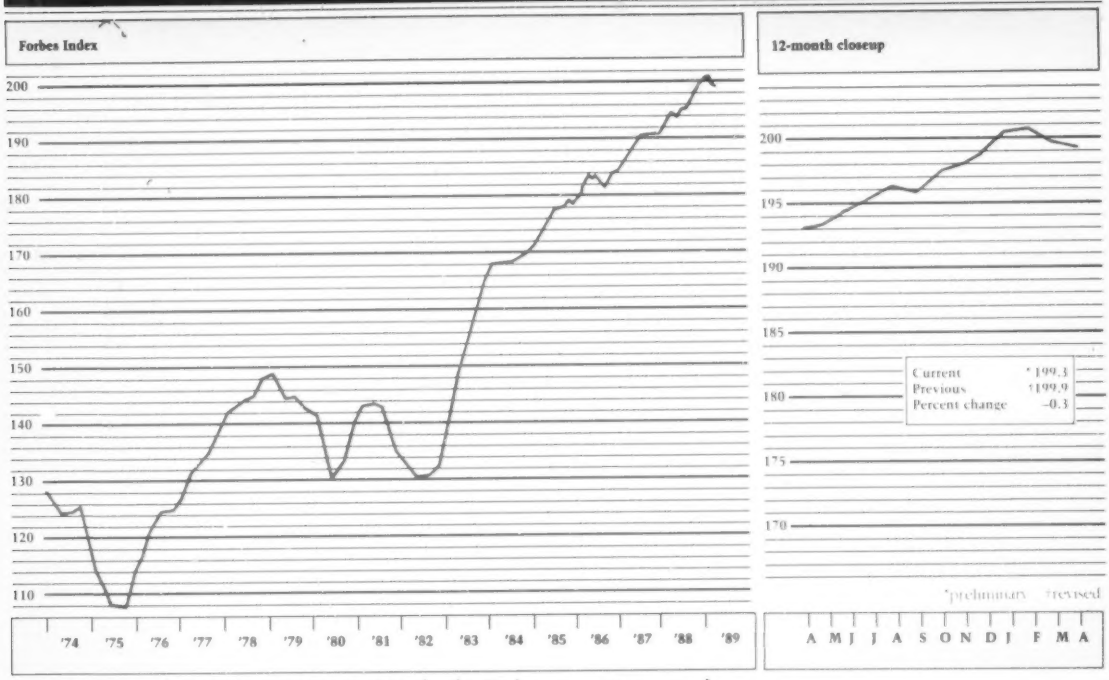
The Forbes Index



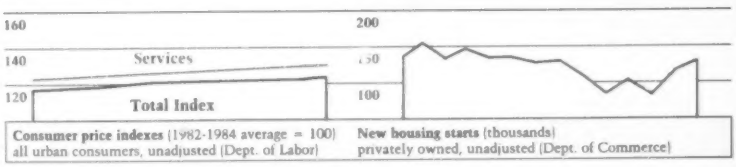
Spring slump. After declining 0.4% in March, the Forbes Index went down another 0.3% in April, according to a preliminary reading. A sharp jump in retail gasoline costs helped push up the Consumer Price Index 0.7% in April, the sharpest rise in seven months. This increase, coupled with a similar gain in the wholesale index, nevertheless failed to boost prices of traditional inflation hedges like precious metals.

New housing starts totaled 131,100 in April, 12.6% above the revised March total. In the first four months of 1989, new housing starts were 3.8% lower than the comparable 1988 figure and 14.8% below the level for the same period two years ago. New unemployment claims fell 7%, to 300,300 in April.

The Forbes Index Components

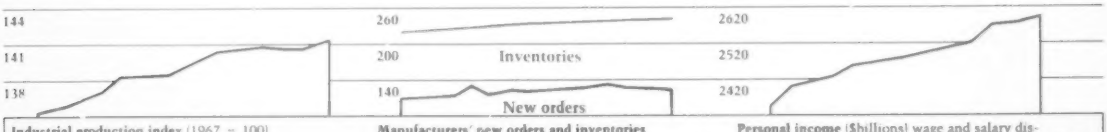
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)

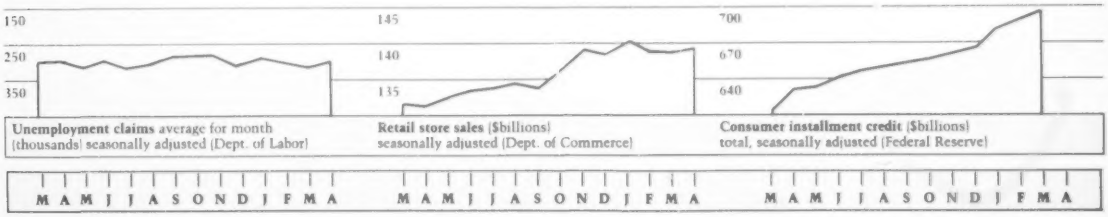
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

Will freer markets allow Japanese carmakers to colonize Europe as they colonized the U.S.? More likely, GM and Ford will be bigger winners on the continent.

Don't tread on us—please

By Jerry Flint

When Western Europe's internal trade barriers come down at the end of 1992, which companies will benefit? In most industries the largest, most aggressive European firms are expected to dominate. But in the car business it is a different story. Europeans fear Japanese automakers will win the day by assembling made-in-Japan parts in subsidized European plants. "This we must prevent happening at all costs," says Cesare Romiti, Fiat Group managing director.

But the Europeans might be looking in the wrong direction. Whatever happens to the Japanese, the American carmakers in Europe—General Motors and Ford—are likely to end up winners as the trade barricades come down. That's because GM and Ford—and Volkswagen, too—already are, in effect, pan-European in approach, compared with more narrowly based competitors such as Fiat of Italy and Renault and Peugeot in France.

Each of the two U.S. companies, with factories in the U.K., Germany, Belgium, Spain and France, accounts for about 11% of Western Europe's car market *(see table)*. As trade barriers fall, "the Americans and the Japanese should gain," says François Castaing, Chrysler's chief engineer, who once worked at Renault.

Italy, because it is so dominated by Fiat, which holds more than 60% of the local market, could be a particularly attractive target. "Italy is one of the highest-margin markets in Europe, the most attractive for the others to attempt to gain a foothold," says Michael Hammes, Chrysler's vice president of international operations. "But it's naive to think that all the barriers will come down in a year. Figure four to six years, a gradual process."

GM is certainly optimistic. Despite fears of excess auto capacity afflicting Europe as the Japanese build plants, GM right now is considering reopening an assembly plant in Belgium to expand its European capacity.

"We think more pan-European than any of our competitors," says Andrew Napier, who heads Ford-Europe's 1992 task force. "We're not going to get it handed to us on a platter, but 1992 will be a good opportunity for us."

The profit potential is huge. Overall, the European car business produced $8 billion to $10 billion in profits for manufacturers the past two years. The Americans are doing especially well (Forbes, *Mar. 20*). Last year alone GM reported profits of $1.8 billion in Europe, Ford $1.6 billion. Both set first-quarter profit records in Europe as well.

Now Chrysler is angling for a small slice of the European action, increasing exports from North America and planning small European assembly plants. One will make 100,000 small Jeep-type vehicles in a joint venture with Renault, while a second plant—still under consideration—might churn out up to 125,000 Jeep station wagons or minivans a year.

Will the Europeans complain about the Americans as they have been about the Japanese plans? Not likely. Unlike the Japanese, the U.S. has given European auto companies a fair shot at the U.S. market. Just look at all the BMWs and Mercedes on American highways. What's more, the Yanks actually design and build their cars in Europe, much more so than the Japanese plan to do. At any rate, the Europeans must be at pains to prove the Common Market is not a closed market, and they would be hard put thus to discriminate against the already well-established U.S. companies. ■

A world to win

Strong at home, Fiat, Renault and Peugeot could be more vulnerable when Europe's trade barriers fall.

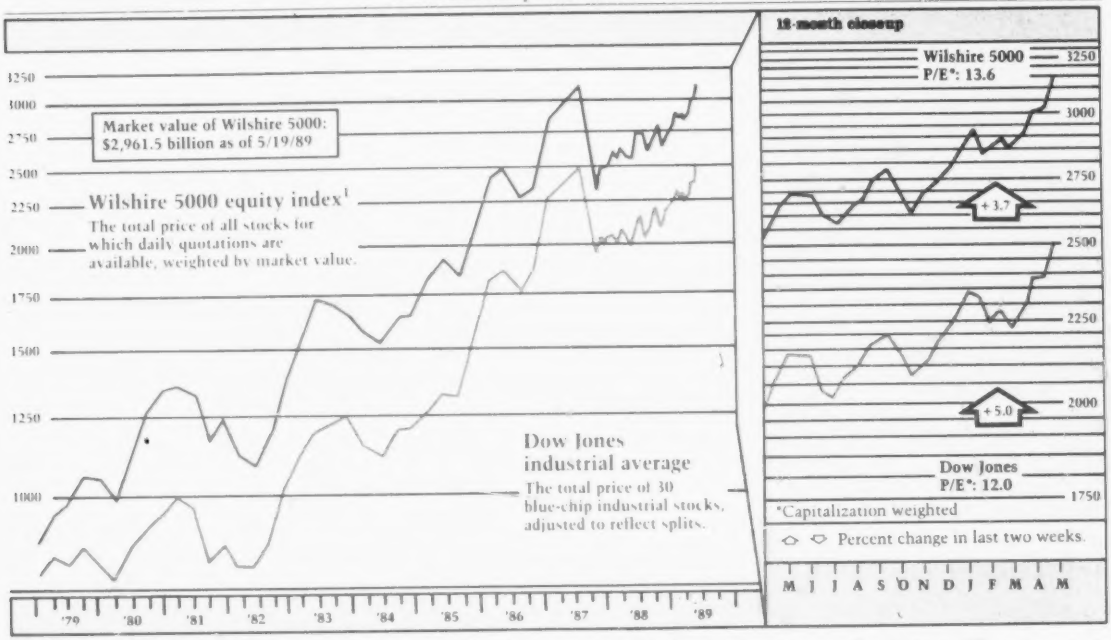
	Market share				
Company	Western Europe	Italy	France	Germany	U.K.
VW-Audi	14.9%	8%	6%	29%	6%
Fiat	14.9	61	7	5	4
Peugeot-Citroën	12.9	7	32	5	6
Ford	11.3	4	7	15	27
GM	10.4	3	5	16	15
Renault	10.2	9	32	3	4

Western European figures based on 1988 data; others on 1986.
Sources: Fiat; Motor Vehicle Manufacturers Association

Jean François Allaux

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Blue chip surge. Aided by falling interest rates, the Dow posted a healthy 5%, 119-point rally during the past two weeks. This gain lifted the Dow industrials to within 8% of their August 1987 alltime high. Secondary stocks posted smaller gains, as the Amex and Nasdaq markets climbed by 2.0% and 2.6%, respectively. The overall market, as measured by the Wilshire index, finished the last ten trading days with a 3.7% increase.

Thanks to strong profits, the Dow is priced at a moderate multiple of latest 12-month earnings. The current P/E of 12 is up from a five-year low of 9.8, which was reached just six months ago, but well off its October five-year high of 21. The Dow's earnings yield (the inverse of the P/E) is 8%, not quite equal to the 8.7% yield on risk-free 30-year Treasury bonds. In August of 1987 the Dow earnings yield was just 4.5%, against a 30-year T bond rate of 8.9%. Despite the current rally, valuations are a long way from their precrash highs.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.8	3.9	3.8	3.5	3.3	4.3
in last 52 weeks	25.1	25.2	28.1	24.9	21.2	20.8

Stock performance based on six key investor yardsticks[3]

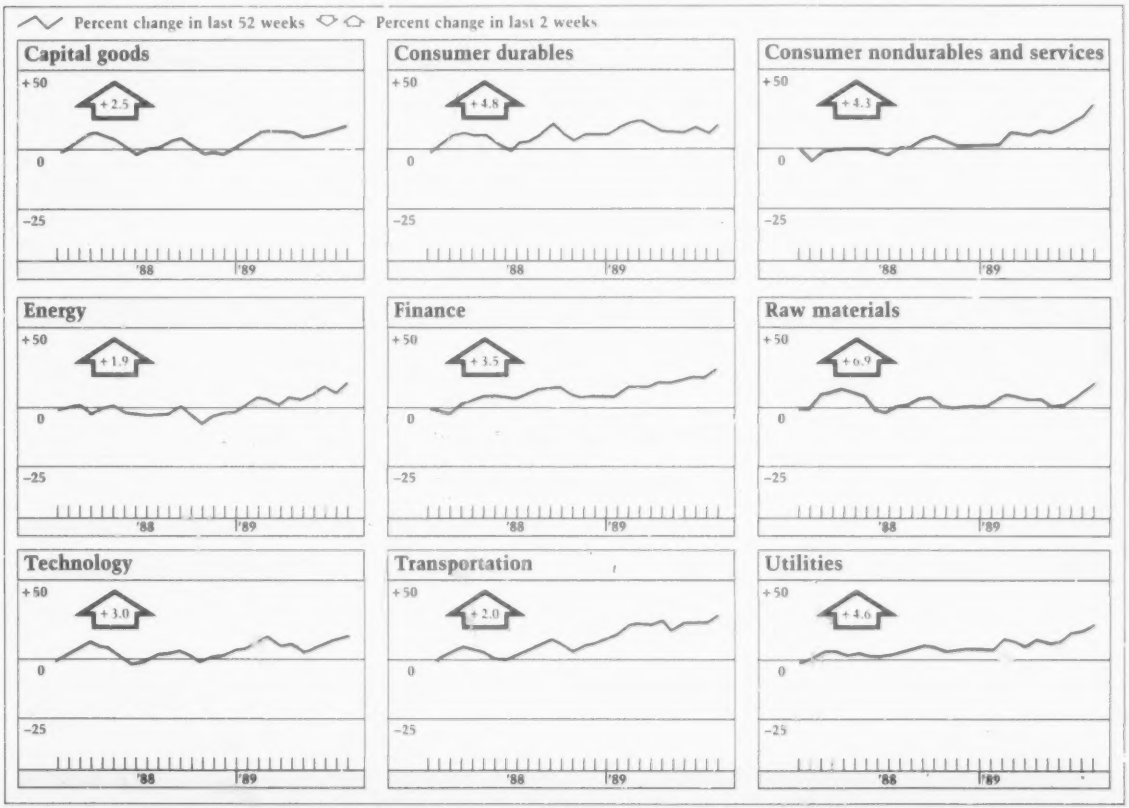
Percent change	Company size		Volatility[4]		P/E multiple		Dividend yield		Growth profile[5]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	4.0	4.2	2.4	2.1	3.9	2.0	2.4	3.7	3.9	3.0	3.3	1.9
in last 52 weeks	28.0	22.0	17.7	12.1	33.1	17.9	7.0	25.7	20.3	19.6	28.9	4.5

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]Equal weighted indices containing all shares with market capitalizations over $10 million. [4]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [5]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 5/19/89. Prepared by Wilshire Associates, Santa Monica, Calif.

Where the Action Is

On the coattails of a strong market. All nine Wilshire sectors advanced over the past two weeks. Raw materials posted one of the best two-week gains in recent memory, with a 6.9% increase. Within this group Ogden, Corning Glass Works and Waste Management scored double-digit percentage gains. Consumer durables, utilities and consumer nondurables also registered above-market increases. With oil prices receding to their earlier levels, energy stocks lagged the market. The oil group squeezed out a 1.9% two-week gain, although Union Texas Petroleum Holdings, Mitchell Energy & Development, NL Industries, Sonat and Eastern Enterprises were all up by 8% or more. Over the past four weeks energy was the only group to show a loss.



What the Analysts Think

A flip-flop on transportation stocks. Four weeks ago transportation stocks showed some of the biggest cuts in 1989 earnings forecasts. But in the last two weeks analysts raised estimates for transportation stocks more than any other group. Regional carriers Atlantic Southwest, America West and Midway Airlines show the largest increases.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.32	13.0
1989 estimates	3.85	11.2
1990 estimates	4.19	10.4

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Transportation	$2.85	11.0	0.55%	–0.04%
2	Energy	3.36	11.8	0.38	0.71
3	Consumer durables	3.53	11.1	0.17	–0.27
4	Consumer nondurables	2.70	14.6	–0.09	–0.22
5	Utilities	3.02	11.5	–0.13	–0.34
6	Raw materials	3.45	9.6	–0.19	0.20
7	Capital goods	3.00	13.5	–0.26	0.07
8	Technology	3.10	11.7	–0.69	–1.55
9	Finance	3.69	8.9	–0.78	–0.14

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 5/19/89. Prepared by Wilshire Associates, Santa Monica, Calif. IBES, a service of Lynch, Jones & Ryan, New York.